

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 AID-05 EB-08 TRSE-00
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
DODE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 STRE-00
/092 W

-----045950 191911Z /43

O R 191656Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 5776
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
USMISSION GENEVA
AMEMBASSY BRUSSELS

UNCLAS SECTION 1 OF 2 LISBON 3754

PARIS FOR OECE
BRUSSELS FOR USEC
DEPT. PASS TREASURY FOR SYVRUD
DEPT. PASS EXIMBANK FOR ALBRIGHT
GENEVA FOR MTN DEL

E.O. 11652: N/A
TAGS: FN, ECON, PO
SUBJ: IMF AGREEMENT: GOP RELEASES LETTER OF INTENT

REF: (A) LISBON 3478; (B) LISBON 3395; (C) LISBON 2798

BEGIN SUMMARY. GOP HAS RELEASED TEXT OF ITS LETTER OF INTENT TO THE
IMF IN SUPPORT OF SECOND TRANCHE STANDBY AGREEMENT.
LETTER COMMITS GOP TO: LIMITING DOMESTIC CREDIT EXPANSION TO
MAXIMUM 157 BILLION ESCUDOS BETWEEN DEC. 31, 1977 AND END OF
PROGRAM PERIOD (MARCH 31, 1979), A 21 PERCENT INCREASE DURING
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CALENDAR 1978, AND A 24.1 PERCENT INCREASE IN 15-MONTH PERIOD
ENDING MARCH 31, 1979; LIMITING PUBLIC (NON-ENTERPRISE) SECTOR
CREDIT EXPANSION TO MAXIMUM 28.5 PERCENT DURING CALENDAR 1978,
AND 41.6 PERCENT FROM YEAR END 1977 THROUGH MARCH 31, 1979;
RAISING INTEREST RATES (ALREADY ANNOUNCED BY BANK OF PORTUGAL
AND REPORTED REF A); LIMITING NET EXTERNAL BORROWING TO U.S.
\$945 MILLION DURING CALENDAR 1978 AND 1.1 BILLION FROM END

OF 1977 THROUGH END OF PROGRAM PERIOD; PHASING OUT IMPORT SURCHARGE SCHEME AND LIFTING ADMINISTRATIVE IMPORT BARRIERS ON GOODS AND SERVICES NOT SUBJECT TO QUANTITATIVE RESTRICTIONS; ACHIEVING CURRENT ACCOUNT BUDGET SURPLUS WHILE RESTRAINING OVERALL BUDGET DEFICIT TO NOMINAL 1977 LEVEL. END SUMMARY.

1. ON MAY 18 MINISTRY OF FINANCE RELEASED TO NEWS MEDIA TEXT OF GOP MAY 8 LETTER OF INTENT TO IMF. FINANCE MINISTER CONSTANCIO IS SCHEDULED TO ADDRESS THE NATION MAY 19 TO EXPLAIN THE LETTER'S IMPORT. FOLLOWING SUMMARIZES LETTER'S MAJOR POINTS.

2. MONEY AND CREDIT TARGETS: FOLLOWING TABLE PRESENTS EXPLICIT GOP MONETARY AND CREDIT TARGETS (ITEMS (A) THROUGH (C) IN BILLIONS OF ESCUDOS; ITEM (D) IN MILLIONS OF U.S. \$):

| | 1977 | | | | | |
|------------------------------|-------|-------|-------|-------|-------|--|
| | 12/31 | 1978 | 1979 | | | |
| (A) NET BANK CREDIT (ACTUAL) | 6/30 | 9/30 | 12/31 | 3/31 | | |
| OUTSTANDING | 654 | 701.6 | 738.6 | 795.7 | 811.4 | |
| CHANGE | - | 47.6 | 37 | 57.1 | 15.7 | |
| PERCENT CHANGE | - | 7.3 | 5.3 | 7.7 | 2.0 | |

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(B) NET BANK CREDIT 129.8 143.8 148.8 166.8 183.8
TO PUBLIC NON-
ENTERPRISE SECTOR

CHANGE - 14.0 5.0 18.0 17.0

PERCENT CHANGE - 10.8 3.5 12.1 10.2

(C) MONETARY BASE 147.2 143.6 143.6 151 149.2
CHANGE - -3.6 NIL 7.4 -1.8

PERCENT CHANGE - -2.4 NIL 5.2 -1.2

(D) BANKING SYSTEM'S
NET FOREIGN

LIABILITIES 1,352 1,922 2,092 2,297 2,457

CHANGE - 570 170 205 160

PERCENTAGE CHANGE - 42.2 8.8 9.8 7.0

IN ORDER BETTER TO CONTROL COMMERCIAL BANK LIQUIDITY, CENTRAL

BANK HAS RAISED DISCOUNT RATES (REF A), TRIMMED REDISCOUNT FACILITIES, AND INCREASED RESERVE REQUIREMENTS TO 7 PERCENT ON ALL COMMERCIAL BANK DEPOSIT LIABILITIES. MANDATORY LENDING CEILINGS FOR INDIVIDUAL INSTITUTIONS WILL BE INTRODUCED IF NECESSARY.

3. INTEREST RATE POLICY: BANK OF PORTUGAL HAS ALREADY INCREASED INTEREST RATE. CENTRAL BANK WILL ALTER RATER AS NECESSARY TO HELP CONTROL MONEY GROWTH, DISCOURAGE INVENTORY SPECULATION, AND INHIBIT CAPITAL FLIGHT.

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INFO OCT-01 IO-14 ISO-00 SP-02 AID-05 EB-08 TRSE-00
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
DODE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 STRE-00
/092 W

-----046234 191910Z /43

O R 191656Z MAY 78

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 5777

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY PARIS

USMISSION GENEVA

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UNCLAS SECTION 2 OF 2 LISBON 3754

PARIS FOR OECD

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DEPT. PASS TREASURY FOR SYVRUD

DEPT. PASS EXIMBANK FOR ALBRIGHT

GENEVA FOR MTN DEL

4. EXCHANGE RATE POLICY: GOP WILL PURSUE CRAWLING PEG POLICY FOLLOWING MAY DEVALUATION (REF B). EXCHANGE RATE WILL BE ADMINISTERED SO AS TO CONSTRAIN COMMERCIAL BANK NET FOREIGN LIABILITIES TO LEVELS INDICATED IN 3(D) ABOVE. GOP DOES NOT INTEND TO INTRODUCE MULTIPLE RATES.

5. FISCAL POLICY: GOP WILL REDUCE PUBLIC (NON-ENTERPRISE)

SECTOR BUDGET DEFICIT TO 6 PERCENT OF GDP IN 1978, COMPARED TO
8 PERCENT IN 1977 AND 11 PERCENT IN 1976. TAX MEASURES
ALREADY ADOPTED WILL INCREASE REVENUES BY EQUIVALENT OF 2
PERCENT OF GDP IN 1978. RECEIPTS IN EXCESS OF PROJECTIONS
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WILL APPLIED TO REDUCE THE DEFICIT RATHER THAN TO AUGMENT
OUTLAYS.

6. IMPORT POLICY: THE 30 PERCENT IMPORT SURCHARGE CURRENTLY
APPLIED TO A LIMITED NUMBER OF IMPORTS WILL BE REDUCED
TO 20 PERCENT ON OCTOBER 1, 1978, TO 10 PERCENT ON APRIL 1, 1979,
AND ELIMINATED ENTIRELY BY OCTOBER 1, 1979. THE 60 PERCENT
SURCHARGE APPLIED ON LUXURY ITEMS WILL BE ELIMINATED GRADUALLY,
STARTING IN 1979, IN CONSULTATION WITH THE IMF.
THE CEILING AUTHORIZED FOR IMPORTS SUBJECT TO QUANTITATIVE
RESTRICTIONS WILL BE RAISED TO 3.4 BILLION ESCUDOS FOR 1978,
EXCEPT FOR KNOCKED-DOWN AUTOMOBILES, WHICH WILL REMAIN AT THEIR
NOMINAL 1977 ESCUDO VALUE. IMPORT LICENSE REQUESTS FOR RAW
MATERIALS AND INTERMEDIATE GOODS WILL BE APPROVED AUTOMATICALLY.
GOP WILL STRIVE TO CLEAR UP BACKLOG OF IMPORT LICENSE
REQUESTS FOR THESE ITEMS BY END OF JUNE 1978. IT INTENDS
ALSO TO EXTEND THIS REGIME BY 6/30/78 TO ALL OTHER ITEMS
NOT QUANTITATIVELY RESTRICTED.

7. COPIES OF LETTER OF INTENT BEING POUCHED TO ADDRESSEES.

COMMENTS FOLLOW SEPTTEL.
BLOOMFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENT DRAFT, AGREEMENTS, TEXT, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON03754
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: ALSO FOR USMTN
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780211-0981
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780541/aaaabhxr.tel
Line Count: 203
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8e448c9a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 LISBON 3478, 78 LISBON 3395, 78 LISBON 2798
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2639757
Secure: OPEN
Status: NATIVE
Subject: IMF AGREEMENT: GOP RELEASES LETTER OF INTENT
TAGS: ECON, PO, IMF
To: STATE USEEC MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/8e448c9a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014